JPRS 83276

15 April 1983

East Europe Report

ECONOMIC AND INDUSTRIAL AFFAIRS

No. 2388

FBIS FOREIGN BROADCAST INFORMATION SERVICE

NOTE

JPRS publications contain information primarily from foreign newspapers, periodicals and books, but also from news agency transmissions and broadcasts. Materials from foreign-language sources are translated; those from English-language sources are transcribed or reprinted, with the original phrasing and other characteristics retained.

Headlines, editorial reports, and material enclosed in brackets [] are supplied by JPRS. Processing indicators such as [Text] or [Excerpt] in the first line of each item, or following the last line of a brief, indicate how the original information was processed. Where no processing indicator is given, the information was summarized or extracted.

Unfamiliar names rendered phonetically or transliterated are enclosed in parentheses. Words or names preceded by a question mark and enclosed in parentheses were not clear in the original but have been supplied as appropriate in context. Other unattributed parenthetical notes within the body of an item originate with the source. Times within items are as given by source.

The contents of this publication in no way represent the policies, views or attitudes of the U.S. Government.

PROCUREMENT OF PUBLICATIONS

JPRS publications may be ordered from the National Technical Information Service, Springfield, Virginia 22161. In ordering, it is recommended that the JPRS number, title, date and author, if applicable, of publication be cited.

Current JPRS publications are announced in Government Reports Announcements issued semi-monthly by the National Technical Information Service, and are listed in the Monthly Catalog of U.S. Government Publications issued by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

Correspondence pertaining to matters other than procurement may be addressed to Joint Publications Research Service, 1000 North Glebe Road, Arlington, Virginia 22201.

JPRS 83276

15 April 1983

EAST EUROPE REPORT

ECONOMIC AND INDUSTRIAL AFFAIRS

No. 2388

CONTENTS

TRANSPORTATION MINISTER INTERVIEWED ON 1983 OBJECTIVES

East Berlin DDR-VERKEHR in German Vol 16 No 1, (signed to press 10 Dec 82) pp 2-4

["Exclusive interview" with Otto Arndt, GDR minister for transportation; date and place not specified: "The Transportation System in the 1983 Plan Year"]

[Text] [Question] Comrade Minister, at the time of your granting us this interview the results for 1982 are not as yet available. Nevertheless it may be possible to make some preliminary estimates which make it possible to draw some conclusions as to which aspects of the work of our transport system are to be emphasized in 1983. To what extent has it been possible to carry through the requirements resulting from the economic strategy in the 1980s in all sectors of our transport system?

[Answer] The year 1982 was in all sectors of our transport system characterized by high requirements in order to achieve consistently the objective set us by the 10th SED Congress, which called for more effective accomplishment of our total freight transport work over the shortest possible routes and with less fuel and energy consumption.

As a result of the strenuous efforts of the workers of all transport carriers carried out jointly with their partners in the other economic branches it has been possible to lower by approximately 6 percent the transport expenditures for our inland traffic (and this includes plant-operated transport), while production in the spheres of industry, construction and agriculture increased.

This was primarily made possible through avoidance of unnecessary transport, through optimizing delivery and transport relations and by a more rational shaping of transport operations per se. This had an approximately 1 billion mark economic effect on our national economy.

Whereas in the years leading up to 1980 our national economy experienced an absolute transport expenditure increase which, to be sure, was always somewhat slower than that of the production sector, we have as a result of the intensive work performance of all those involved since 1981 achieved an absolute and specific decrease in transport expenditure despite a planned

further increase in the production rate. This result must also at the same time be attributed to a changed division of labor. The energy-effective and cost-effective rail and inland navigation carriers were able to increase their inland traffic performance share to the present 76 percent level through their assumption of road transport amounting to approximately 9 million tons of freight, and energy-consuming road transport was reduced by approximately 20 percent.

As gratifying as all this is, an even higher rate is demanded on the basis of the economic requirements worked out by the Fifth Plenum or the SED Central Committee.

[Question] All of this has been and is connected with far-reaching changes and comprehensive improvement of the management and planning process. What is your assessment of the level of the work in this respect and what is at stake this year?

[Answer] As is always the case when changes have to be made and new ideas have to be carried through, it is first of all necessary to bring about a clear understanding by all of those involved concerning the purposes, objectives and content of the measures to be taken.

The number of those who are collaborating in efforts to bring about a reduction of transport costs, especially through optimizing transport operatinns, has grown. The measures taken no longer continued to be restricted to the transport-intensive sectors, but they were extended to all branches of our national economy.

In addition, the Bezirk councils have considerably intensified their work for optimizing transport operations. There has also been a content-wise broadening of task assignments through inclusion of additional work categories in the programs, especially through a quest for more favorable relations between the production and transport sectors, such as optimum production and storage locations, which will lead to a higher level of effectiveness if they are planned on a longer-range basis. There exists today no branch of our national economy, no Bezirk, and no branch of our transport system in which the transport and delivery relations are not being optimized.

Also contributing to the achieved results are the new management and planning methods, such as the issuance of transport identification codes for the use of freight transport services and for balancing the latter with the available energy resources and transport capacities.

I envision three focal points for our work in 1983. First, the efforts to optimize delivery and transport relations are to be continued. In this connection, the cooperative phases of the combines and enterprises must at the same time be involved in this process to an increased extent. In other words, in the second phase it is necessary to determine optimum production and storage standards. Second, the effectiveness of the transport identification codes as a basis for planning and balancing transport requirements must

be increased everywhere. Third, the work with transport norms in selected branches of our national economy which was begun last year must be accelerated with the objective of generally introducing as of 1984 such norms for measuring and assessing the transport expenditures in all combines and enterprises of our economy.

[Question] The new transport planning system, the new freight transport law and the new inland freight transport tariffs have not been effective in actual practice for not quite a year. How has our economy reacted to it and have the intended effects come about?

[Answer] It is my assessment that our economy is sincerely supporting our efforts to implement these new transport management and planning methods. There is no doubt that they have contributed to the fact that the influence of our transportation system on the management of the reproduction processes has increased and that its expenditures are tied even more effectively to our economic accounting procedures. Seen in this light, they are important for assessing the relationship between expenditures and results, which basically always involves the rendering of an overall economic accounting, and thus also an inclusion of transport expenditures. The attainment of a higher level in this sphere demanded by the Fifth Plenum or the SED Central Committee constitutes for us an obligation to continually analyze and to increase the effectiveness of these methods in cooperation with our economy.

[Question] Would you please illustrate with some figures the fact that it has been possible to realize an increase in our national economy's goods production with relatively lower transport expenditures, Comrade Minister, and where do you envision the focal points for this year?

[Answer] I have already stated that transport expenditures in our inland traffic in the year 1982 were reduced by approximately 6 percent. This amounts to almost 5 billion ton/kilometers. This figure results from the absolute reduction of the transported freight quantities moved via road transportation as well as from shorter transport distances.

Thus, there has been a significant overall reduction in freight transport volume an proportion to the goods production volume of our national economy.

As indicated in the law concerning the 1983 economic plan decided by the Sixth Session of the GDR People's Chamber, the goods production of our national economy will again increase 3.8 percent.

At the same time, we have along with the plan made it our objective to lower our transport expenditures by an additional 4 to 5 percent. We will thus also this year purposefully follow the course which we have taken up. In this connection, the consequences for the individual carrier branches are quite differentiated. Compared to 1982, the railroads must in 1983 achieve a freight transportation volume which is 13.5 million tons greater, and the inland navigation system must realize a transport volume which is 1.2 million tons greater. In the case of the railroads, this corresponds to an increase

of 1.5 days' output per month, and in the case of the inland navigation system this even corresponds to an increase of 2 days' output which must be achieved each month.

The public motor traffic system must in the coming year concentrate its efforts to an even greater extent on its primary functions, the supply and distributor traffic providing transportation service to and from the railroads and to and from the inland navigation system, to delivery and pickup transport services, and to border-crossing freight transport services. Transportation of supplies must be ensured at all times. Enterprise-conducted transportation must to a still greater extent be restricted to the transportation of technological equipment and must collectively achieve a decisive further reduction.

All in all, the division of labor which is oriented toward a lowering of energy consumption is thereby continued in a purposeful manner.

[Question] Lowering of energy consumption, that is the keyword for another question. What are the results of the work done in 1982, and how must the work in this sphere proceed?

[Answer] Of course, top priority in all our efforts is accorded to fully ensuring the transportation services in the passenger and freight transportation sectors, in which connection the energy aspects play an important part.

There are three courses to be pursued for the solution of this problem, as follows:

--continuation of the energy-efficient division of labor between the carriers;

--increased use of electric means of propulsion with emphasis on further electrification of rail routes; and

--additional technical, technological, and technical-organizational measures for lowering specific energy consumption rates.

It has overall been possible to achieve the transport performance of the public carriers in the past year with an 11-percent smaller diesel fuel consumption rate. Approximately three-quarters of these savings were achieved through the results of planned transport cost reductions and approximately one-quarter through the previously mentioned measures for achieving rational utilization of energy. We are confronted this year, too, with the task of carrying out our transport operations with the best possible utilization of energy. In so doing, however, it is especially necessary to achieve a higher degree of effectiveness from continued application of substitution measures and from lowering of specific energy expenditures.

[Question] Comrade Minister, economical energy consumption is one aspect, and the effective and full exploitation of the basic resources constitutes

an other facet of great importance for our national economy and at the same time also for the industrial economy. What do you envision to be the focal tasks for the government offices, enterprises and combines of our transport system?

[Answer] We, along with all participants in our economic work, acknowledge the fact that the intensification of our transport services continues to be the decisive factor in our work. Naturally, this concerns first of all an even more effective exploitation of our transport means. Here, indeed, we still have important reserves at our disposal. In this connection, our efforts are going in two directions. First, it is necessary to accelerate the overall transport process. This begins with speedy loading of the transport means by the shippers, calls for the best possible linking of all individual phases of a transport operation by the carriers themselves, and ends with speedy unloading by the recipients. This must happen on all days of the week, and thus also on weekends and holidays, around the clock.

In the interest of attaining a high effectiveness level, it is necessary to make a substantially more effective use of the technological possibilities. The following example is presented in this connection: The railwaymen have resolved this year to shorten by approximately 5 hours the turnaround time of the freight cars from time of loading to time of reloading. This would make possible five more loadings of each freight car per year, which corresponds to an additional rail transport volume of more than 10 million tons. Such efforts also apply similarly to trucks, ships of our inland navigation system, and seagoing vessels. But it is also obvious that this task cannot be solved by the transportation services alone. The active cooperation of our customers is necessary precisely for the loading and unloading of rail cars, trucks and inland navigation vessels. They too must prepare themselves technologically for speedy and steady turnaround times. This applies to the necessary manpower to the same extent as it applies to the necessary technical equipment. As a form of territorial rationalization, the cargo-handling cooperatives for jointly, and thus effectively, utilizing available technical equipment which are active in many places have proved their worth. And since I am now speaking about transport customers, let me also add a word about the second aspect of more effective exploitation of transport means.

This aspect calls for optimum utilization of freight cars, trucks, inland navigation and seagoing vessels with respect to space and weight. It is clear that the achievement of optimum handling of specific categories of goods is in the interest of our national economy. Transport space as well as propulsion energy is saved thereby. For instance, an extra 100 kilograms of goods loaded on each freight car per year will effectively result in more than 1 million tons of goods per year for our national economy. This corresponds to an annual equivalent of approximately 650 freight cars. And this is worth it!

[Question] The shifting of transports from the roads to the rails also requires more points of access to the railway network and to the inland water routes. How are things looking in this area, and what remains to be done?

[Answer] That is correct. It is a well-known fact that we are striving for optimum energy- and cost-effectiveness for the entire transportation process. One must also figure out at which point a direct factory access to the railroad or to inland navigation facilities is more advantageous than road transport by truck to and from a factory. It must by the same token be calculated at which distance an interruption of the road transport and transfer of the goods for transportation by rail or via inland navigation is correct from an economic point of view. Thus, the priority consideration is always the effect of our actions on our national economy.

With this in mind, we have in the past year reopened or newly created additional access points to the railway and navigation networks. This statement also includes the fact that a number of direct factory access points have been newly built or placed into operation again. We are continuing along this path this year, too. In this connection our industries have submitted many applications which are conscientiously examined by the pertinent local council organs and which will be decided on after coordination with the transport enterprises.

[Question] Comrade Minister, the shifting of transport and railway performance increases also means the further development of container transports and more demanding tasks in the sphere of piece-goods transportation. What is your assessment of the level which has been attained in this respect, and how will things proceed in this sector in 1983?

[Answer] There is no doubt that the changed division of labor between the railways and the motor transportation system has enhanced the importance of of piece-goods transportation by containers and via the rails. In the case of both of these rational forms of transportation, rapidly increasing industrial demands are made on the railways. We expect an approximately 11 percent increase in the goods volume for both transport categories. Here, too, the main thrust of our work is taking place in the technological field. In the sphere of container transportation, this refers to better coordination of the rail transport possibilities with the available containers, cooperation with the motor transport system at the reloading points, and a smooth taking over of the containers by the recipients and transloaders.

In the sphere of piece-goods transportation, we primarily intend to increase the share of loadings of local freight cars which can be moved directly to the railway station of their destination without any additional transloading en route by means of taking into consideration schedule and routing factors, and also to ensure in the local areas concerned speedy delivery and removal of such goods by the motor transportation services or by the customers themselves. Here too the time factor plays an important part, because in the case of piece goods important supply goods for the population and for our national economy are as a rule involved.

It is quite natural that we will also continue to raise the level of mechanization of the piece-goods handling and transloading sheds in order to facilitate the work and at the same time to speed it up.

All in all, the performance capacity and quality of work in the sphere of container and piece-goods transportation by rail are of decisive importance to the extent that we will be able in an efficient and effective manner henceforth to offer to our current road transportation system an alternative on the rails which is attractive and corresponds to the requirements of our economy.

[Question] Electrification of the railway lines is the most important project for rationalization and energy savings in our transportation system with far-reaching significance for our entire people's economy. Is everything going according to plan in this respect, what progress has been made in this work, and what are the objectives for the year 1983?

[Answer] Your statement that the electrification of severely burdened rail sections is the principal one of all our measures for rational energy use and particularly for the substitution of liquid fuels is fully justified. It is for this reason that the 10th SED Congress aimed at a raising of the electrification rate level.

As a result of comprehensive and commendable initiatives by the workers of the railways and the cooperation partners from other branches of our economy it has been possible in 1982 to put into service an additional 140 kilometers of electrified lines in the following sections:

Ludwigsfelde - Seddin	37.0 km
Golson - Glasower Damm - Seddin	56.0 km
Grossbeeren - Teltow	3.0 km
Saarmund - Seddin - Priort	44.0 km.

An important switching yard and the "turntable" of the international transit freight traffic, the Seddin railway station, has thereby been linked up with the electrified rail network since 23 May 1982. The share of electric traction in overall rail transport performance has thereby been increased to approximately 26 percent.

For 1983, the electrification of the western Berlin outer ring and of the first section of the Berlin - Rostock line as far as the Loewenberg railway station is planned. From the southern Berlin outer ring, the Berlin/Gruenau railway station will be linked up with the electrified network via the Berlin/Schoenefeld airport railway station, so that a total of 151 km or line will be electrified using effective construction and installation technologies.

[Question] All these problems require precise scientific analyses and solutions which are effective in actual practice. How do you assess the results of the scientific-technical work and which are the points of concentration for the plan period which lies ahead of us?

[Answer] It is difficult to demonstrate and to evaluate the manifold research and development results within the framework of this interview.

Overall, decisive contributions were made for raising the effectiveness of the transport, transloading, construction, and maintenance processes. Among other examples, this finds expression in the fact that since the beginning of the current 5-year plan more than 58 million work hours have been saved, which corresponds to the work capacity of more than 32,000 persons. The higher standards set for carrying out the intensively expanded reproduction process require that the course taken to achieve greater effectiveness of science and technology for the rationalization of the reproduction process in the combines and enterprises of our transportation system and for an improved cost-benefit ratio must be continued at an accelerated pace. To achieve this, the scientific-technical potential must be concentrated even more resolutely on the following:

--continuous and complex rationalization of freight transport with the objective of a further lowering of transport expenditures;

--noticeable improvement in the sphere of economical energy consumption in all branches, sectors and processes;

--introduction of modern traffic and processing technology, especially in combination with microcomputer and robot technology, as well as

--development and application of rational and effective technologies in transportation, construction and repair processes.

We will achieve in the shortest possible time highly effective technological solutions by proper task assignment and the setting of high economic targets on the basis of responsibility-listing reference books, by purposeful guidance of the multiform processes, and by even closer cooperation between the research collectives and the subsequent utilizers of their findings from the initial idea to the realization of the results in actual practice.

[Question] One last question, Comrade Minister. As is customary in our country, the plan for 1983 has also been thoroughly discussed by the working people of our transportation system. What is your assessment of the results of the plan discussion and what are the focal orientations for the work in 1983?

[Answer] Indeed, the working out of the 1983 plan was a complicated but also a creative process which set high demands for the responsibilities of the government leaders and of the managers of the social organizations.

As was the case in past years, we started out with making the entire treasure of the workers' experience fully utilizable for high performance and effectiveness objectives.

In this connection, the decisions of the Fourth Plenum or the Central Committee held in the beginning of September 1982 in Leipzig were a great help for the plan discussion and for working out the plans.

Altogether 85 percent of the workers have asked to be heard and have submitted more than 50,000 recommendations, suggestions and critiques for the solution

of the complicated tasks to be solved in 1983. The workers have thereby manifested their firm intention in the coming year to make an even greater contribution for the smooth functioning of the reproduction process of our national economy, systematic supply services for our population, and for securing work-related student and ordinary passenger transportation. The party organization management boards, the political organs of the German Reichsbahn, and the management board of the labor union and all other workers have earned special thanks for their active cooperation.

The fact that the cooperation between the ministries, the Bezirk councils, and the combine management boards was deepened further also contributed to the successful completion of the plan documents. Altogether, the national economic plan for 1983 is the result of comprehensive socialist teamwork based on the following general objectives of our national economy:

--Compared to 1982, to achieve an absolute 1.4 percent decrease of the transport performance of our inland transportation system, while goods production in the industrial, construction, and agricultural sectors increases by 3.8 percent.

In this connection, the consequences resulting from the diminishing transport performance are different in the cases of the individual carriers. Thus, the railways' plan is based on a 2.8 percent performance increase by way of a continued energy-effective division of labor, whereas the transport performance on the highways will be reduced by an additional 5 percent.

--In the sphere of passenger traffic, it is primarily necessary to improve the quality of work-related and student transportation.

--Industrial transportation, performance must be increased to 102.4 percent, and in this connection it is particularly the repair of motor vehicles for the population which must be increased by 11.8 percent.

--For a further improvement of effectiveness, net costs per 100 marks of goods production are to be lowered at least 2.1 percent.

In order to carry out these demanding tasks, a new management quality must be brought about even more rapidly and more consistently on all levels in accordance with the decisions of the 10th SED Congress. By way of continuing the socialist competition campaign under the watchword "A high rate of performance growth through increasing work productivity, effectiveness, and quality--everything for the welfare of the people and for peace!", it is above all necessary in this connection to open up new performance and effectiveness reserves. All work collectives and each individual are exhorted to unfold additional creative initiatives for increasing the performance capabilities of our republic. And let me add a final word in this context:

As a decisive link in the chain of efforts to bring about a further performance increase of our national economy, the 10th SED Congress and again the Fifth Plenum of the SED Central Committee have emphasized the increasing

importance of qualitative factors. This involves increasing demands on the knowledge, skills and willingness to perform of all workers of the transportation system.

In order to do justice to these demands and to achieve everywhere a higher level of quality and effectiveness, it is necessary to pay the greatest attention to politicoideological work, to cultural shaping and education, and to work with people as such, and resolutely to promote on all levels the utilization of scientific-technical knowledge.

8272
CSO: 2300/157

GASOLINE SHORTAGES SEEN AFFECTING PRODUCTION

Bonn DIE WELT in German 24 Jan 83 p 5

[Article by H. R. Karutz, Berlin: "Daily Life in the GDR Shaped by Fuel Shortages; Enterprises Receive Gasoline and Diesel Fuel Only in Exchange for Coupons"]

[Text] In the enterprises of the "GDR" an unprecedented wave of economies is spreading. For the industrial worker, next year is going to be one of the hardest since the war, for he is supposed to produce even more than in 1982 on a round-the-clock shift and with materials again severely reduced, whenever this is possible. The official goal for 1983 is 4.2 percent growth.

However, the SED's ambitious plans already failed in 1982; a few days ago the Central Office of Statistics in East Berlin announced in a sober tone a result that brought one back to earth—3 percent growth instead of 4.8 percent.

What had appeared in broad outlines since the plenum of the SED Central Committee at the end of November is now taking shape, concretely and drastically, in the average workday in the "GDR." The official slogan is even harsher and less conciliatory than last year: electrification of the railroads, severe limitations on the use of company vehicles and trucks, rationing of gasoline and diesel fuel for all state-owned enterprises and for buses and taxis and finally the shutting down of all electrical heating systems.

The shortage of 2 million tons of oil (only 17 instead of 19 million tons) with which the Soviet Union is burdening the fraternal "GDR" is becoming extremely noticeable in practice. As early as the middle of October 1982, the East Berlin magazine German Foreign Policy indicated what problems the following months and years would bring. Since "further significant price increases" for Soviet crude and fuel were imminent, the GDR ought to export still more than it has up to now, for Moscow had turned into credits the payments due for oil in the years of rapid industrial expansion in the "GDR."

In everyday life over there, it is the shortage of fuel that is most noticeable, as can be proved from a series of examples:

-Enterprises received coupons for severely limited quantities of gasoline and diesel fuel. If the allotment is exhausted on the 22nd of each month, the vehicles have to remain in the yard. Gas coupons unused by the end of the month expire.

-Cross-country bus routes have been done away with, and the length of time between trips has been increased. Taxi drivers have been ordered not to cross city limits any more. To save on weight and thus on fuel, a number of taxis of the local state transportation enterprises, especially in the provinces, have adopted a policy of giving rides to no more than three instead of four passengers per trip.

-All official cars for functionaries from the middle ranks almost all the way to the top have been removed from the list of benefits and mothballed. This is especially true of the "personal" official car that was until now available virtually all the time. People traveling on official business are now required to take the train.

-Special "transportation commissions" and employees of the "Worker and Peasant Inspector's Office" (ABI) show up with no prior notice to check whether the enterprises are strictly adhering to the order to form "transportation pools."

-In 1982 the state-owned railroad system—the "Reichsbahn"—transported as much as 72 percent of the total volume of goods moved inside the country. New contracts with the railroads resulted in a number of bus and truck drivers changing employers. Politburo member Hermann Axen hinted at this hidden unemployment at the Central Committee meeting in November 1982. The transportation system met its goals "with less of a financial burden, especially in public motor and company traffic."

"GDR" enterprises still working or heating with oil now must prove by means of an official certificate that they have shut down the system. Since 1 January 1983 all electrical heaters have been turned off in accordance with "Directive Number 1 Concerning the Prohibition of Use in the Area of Energy" (EVVb-AO 1). Paragraph 1, Section 2, however, exempts the army, the state security service and the "state administration of the state reserve" along with all "subordinate offices, units, staffs, enterprises and installations."

In the open gasoline market there has not yet been any rationing at filling stations. A liter still costs 1.65 "GDR" marks. The "basic need" of the ordinary citizen to use without restrictions his "jalopy" or his totally obsolete 2-cycle "Wartburg" is not to be infringed upon.

9873
CSO: 2300/156

EAST-WEST ECONOMIC RELATIONS EXAMINED

Budapest KULPOLITIKA in Hungarian No 5, 24 Jan 83 pp 3-17

[Article by Gabriella Hedri Izik: "On The Strain-Bearing Capacity of East-West Economic Relations"]

[Text] To date, the history of East-West economic relations may be divided into three fairly well-defined parts. The first is the Cold War period during the 1950's when the development of these relations was artificially restrained for noneconomic, political purposes. The second is the decade beginning in the mid-1960's when the detente process was on the upswing and the world economy was not burdened by deep crises; at that time, this was the most dynamic sector of the world economy. The third is the period beginning in the mid-1970's when East-West economic relations gradually became less dynamic and then began to stagnate at the beginning of the 1980's. The question is how the fourth period will develop: Must we count on fluctuation or could the conditions for a more or less consistent development be created? Or, on the contrary, must we perhaps prepare for the economic cooperation between the two blocs of countries becoming marginal in the long run? Finally, is this tendency at all amenable to the preparation of long-range predictions?

We submit that it is hardly possible to reply unambiguously to the last question. The economic relations of the two blocs of countries--each comprised of states with different social structures and each belonging to different alliance systems (or if outside the alliance, they are nevertheless tied to it by invisible threads)--are formed by numerous economic, political and other factors affecting both of them. For this reason, the prognosis may only be made with several variations. As seen from the fourth period, the following seem to be the primary determinants:

--To what extent and at what pace will we succeed in increasing the effectiveness of the socialist national economies--including their recognition by the world economy?

--How will East-West and, in general, international political situations develop?

--What trends will the world economy follow?

We are faced with a stochastic relation having many variables where a significant part of the trends to date are ill-suited to be projected onto the last years of our century. In the following, we do not attempt to introduce the probable versions (or those that seem to be the most probable); there are far too many irrational factors in our world for this. Instead of hypothesizing, we strive to evaluate which processes could strengthen or weaken the ability of East-West economic relations to withstand strain in the coming years.

In order to evaluate the strain-bearing capacity at issue, it would be practical to survey the burdens weighing on East-West economic relations.

In order to evaluate the strain-bearing capacity at issue, it would be practical to survey the burdens weighing on East-West economic relations.

The halt in East-West economic relations is the result of the simultaneous appearance of the following processes formulated in the most general terms;

—East-West political relations are burdened with strain. This influences economic cooperation in two areas: On the one hand, the arms race places an increasing burden on the socialist countries and less money is available for socialist economic development. On the other, extreme imperialist circles deploy instruments obstructing cooperation for political reasons.

--Amid the world economic crisis, demand has decreased on the Western markets especially regarding those traditional export products of socialist countries--with the exception of the energy sector--geared toward the West, not to mention that sales competition has also intensified because of the growing exports of numerous developing countries in this field.

--In the socialist community (in other words, the European member states of CEMA which are at the same time members of the Warsaw Pact), the extensive resources of economic development are nearing exhaustion--although to differing degrees--and the size of the labor force that could still be utilized is decreasing.

The phase of intensive growth requires more capital, but it is exactly the above-mentioned processes which prevent the expansion of modern stock. Finally, the sociopolitical modernization demanded by the phase of intensive growth would also require more time under socialist circumstances, for which a more balanced international atmosphere would create favorable conditions.

By examining the burdens in more detail, the following picture emerges.

Political Sensitivity and Its Causes

Nowadays it is almost a commonplace observation that East-West economic relations are sensitive to changes in political conditions. For that matter, it may be noted that the political sensitivity of international economic cooperation is increasing not only among countries with differing social structures. It is commonly known that, for example, the United States will

employ economic weapons against developing countries pursuing a policy not to its liking, not to mention that political and economic means are also involved in the competition among Western countries. In a significant number of instances, external interference in the economy either directly or indirectly will become connected with the fundamental question of our age: the relationship of socialism to capitalism. It is already evident even from this that economics and, especially, politics are tightly interwoven in East-West relations. We believe that this must be considered a long-range trend. For that matter, the above-mentioned periods of East-West economic relations also correspond to politics: the first to the Cold War, the second to the development of detente, the third to the detente process becoming more complicated or to the exacerbation of international tensions. Naturally these periods do not overlap with geometrical precision. Here it must be remembered that even the most successful phases of the detente process had their own tensions. In the field of economic relations, for example, just prior to the Conference on European Security and Cooperation, the United States ratified a trade law preventing the most favored nation clause trade agreement with the Soviet Union from coming into effect, nor did they change this after the signing of the Helsinki Final Document. On the other hand, the following question, which can also be found in international technical literature, is mistakenly posed: Do political relations shape economic relations or vice versa? Here a multitude of indirect mutual effects emerge which are far from automatically reciprocal.

The reciprocal effects between the different spheres of international life (politics, security and economics), be they direct or indirect, are of rather differing tendencies and intensities. However, a few interrelationships take shape:

--Economic relations between countries become most amenable to political improvement when they create a by-an-large symmetrical mutual interdependence. In this instance, the sudden halt of economic cooperation is harmful-- (and, we might add, to a significant degree)-- to the interests of both parties. We must agree with those Marxist and Western experts who described East-West economic relations as the stabilizer of the "infrastructure" of the detente process.

--The political interventions into international economic relations are also rather varied. It may occur that import restrictions used for reasons of domestic policy (for example, to protect domestic agriculture from foreign competition, or industrial import restrictions are resorted to and regarded as a means with which to reduce enemployment and thus, internal social conflicts). Let us focus our attention on intervention for reasons of foreign policy.

The most extreme example of the last is economic pressure where one or more countries wish to force a country or countries to modify political policy. Discounting rather rare exceptions, only those countries resort to this means whose national economies, as a whole, are more developed and effective than those of the countries against whom it is directed, while they characterize themselves as being at least equal with respect to the political and

military balance of forces. Thus, this activity is based on real or assumed superiority and its objective is the weakening of the other; consequently, it is one of the most antidemocratic phenomena of international life which, in the majority of cases, serves imperialist or hegemonist goals.

Under what circumstances could this pressure be effective?

a) In the world economy of our age, a product which is exported by only one country can hardly be found. Thus, one of the prerequisites for effective economic pressure is that the country employing it win over all exporting countries coming into consideration. Otherwise, the party to be weakened will simply turn to other rival exporters. The situation is the same if the pressure is to be exerted on imports, thereby ruining those sectors of the other side which are geared toward export production; obviously here too it must be made certain that other users do not purchase the products in question.

b) The next condition is that the restrictions on either exports or imports do not significantly harm the country employing them. The loss of a portion of foreign economic relations could lead to supply troubles, unemployment, bankruptcy and thus, social tensions which shake the confidence placed in the government.

c) The third condition is that the country or bloc of countries desired to be weakened be unable by their own effort to counterbalance within a foreseeable time the difficulties caused by the pressure or that they be able to do this only at the cost of the structural distortion of their national economy or the breakdown of its equilibrium which would be difficult to reestablish, thus forcing them to subordinate political interests to economic ones.

--Prejudicial differentiations with which certain countries either impede their economic relations with specific partners or exclude them from preferences extended to their other partners belong to the other category of politically motivated intervention in international economic relations. In these cases generally, Western countries cite their economic interests even when political considerations lurk in the background. (Perhaps the best example of this is the agreement between the European Community [EC] and Yugoslavia. For many years, the Western European integration refused to conclude a suitable trade agreement with Yugoslavia similar to the existing agreements between the EC and other Western European countries. Here it was hardly possible to think of other than political considerations. However, following the events in Afghanistan and prior to the expected death of President Tito when European governments feared that Yugoslavia, far too distant from them, would join more closely to the socialist community, they concluded an appropriate agreement with speed unparalleled in the history of the EC.)

As is known, the present politically motivated pressure weighing in East-West economic relations originated from the direction of the United States. This ideology is not of a new origin; it was already known during the period of

the Cold War, namely, that exports to the socialist countries strengthen the "communist military potential." Paradoxically, this is associated with another thesis, namely, that the arms race will "exhaust" the economy of the Soviet Union.

The following must be taken into consideration when evaluating the tolerance of East-West economic relations in the face of this type of strain:

a) It is only possible to use, or threaten to use, the weapon of economic pressure against the socialist community while its economic status lags behind its political and military potential. And although the Soviet Union is capable of withstanding this pressure--through its political might--it would inevitably mean sacrifice. For this reason, the efficacious acceleration of economic development is also a prominent task of the socialist community from a political point of view; it is a goal equal to that of defense potential. (We will return to this question.)

b) The embargo policy initiated by the United States (which already failed once in the second half of the 1950's) led to serious conflicts with the Western alliance system.

The Western European countries participate in about 80 percent of East-West trade while Japan and the United States each have less than 10 percent. The Western Europeans rightfully object to the United States wanting to limit their sovereignty--especially with the attack on the former's advantageous natural gas deal--while its own grain exports to the Soviet Union are increasing. On the other hand, American foreign policy is traditionally rather tightly connected to domestic policy, and they also seek and wish to find the remedy for their domestic political difficulties (growing unemployment, the disillusionment of a large part of the population with the government, etc.) in their present striving for superiority in every area. However, American economic policy does not seem to be successful. Several variations could be imagined of the search for a solution to the paradoxical situation in which the primary strength of the Western alliance system, i.e., its opposition to socialism, has simultaneously become a centrifugal force.

One would be the striving of a new American administration to avoid conflicts --stemming from its policy toward the East--within the alliance system, since domestic policy results would not counterbalance them in any case.

The other possibility would be that Western Europe were successful--on economic and political grounds--in moderating its dependence on the United States. This would not mean the dissolution of the Western alliance but simply a more balanced relationship among its central powers, which would have a favorable impact on the disarmament conferences and the decrease of tension between East and West.

Neither could that version be discounted where the leadership of the United States would force its will on the Western European governments to a significant degree. In this case, the possibilities for East-West cooperation would

deteriorate. The developments also actively influence political processes occurring in other regions of the world, especially in developing countries.

The third and worst version mentioned rejects the idea that detente and the growth of East-West relations brought generally acknowledged results for Western Europe. The Western experts speaking of the "transatlantic crisis" emphasize that differences of opinion with the leadership of the United States affect every Western European country at the present time. The arguments do not concern isolated issues but fundamental problems of security, economic policy and foreign policy. The fact that the issues related to the crisis received rather wide publicity is a new phenomenon. From the analyses, it is apparent that Western Europe demands an equal footing with the United States by citing equal economic-scientific potential and greater world economic power. And in the background the anxiety lurks that European security is at stake because of the reluctance of the American "hard line" concerning disarmament negotiations.

The July 1982 summit conference of the EC passed a resolution for the protection of the legitimate interests of the EC, to insure that the community would act as quickly and effectively on its trade policy as its partners, and finally, to urge effective dialogue between responsible persons of the United States and the EC on the disputed issues. Following this, in August the EC addressed a memorandum to the United States in which they pointed out that the ban placed on delivering equipment for the Soviet gas pipeline was contrary to international law and, moreover, to American law. It argues that the Soviet Union is capable of constructing the pipeline with its own technology alone, and that the diversification of energy imports is advantageous for Western Europe. It complains that the United States enacted retroactively effective measures without appropriate consultation which seriously harmed the interests of the EC and which cause losses for European companies and increase unemployment in the affected countries. The confidence of EC companies is shaken, not to mention that the embargo is contrary to the free trade proclaimed by the United States. Therefore, the EC calls on the United States to retract these measures.

In the meantime, the Western European governments took steps to ensure that their companies could fulfill their obligations to the Soviet Union. The argument in question between the EC and the United States is new--in contrast to previous trade differences--in that it is expressly political in content; the Western Europeans complain about the experiments of American legislation directed toward "extraterritortial exercise of power."

In summary: We believe that the political sensitivity of economic cooperation between the two blocs of states, each with differing social systems, is a long-term trend. However, the same could not be said of the rude American experiment in applying economic pressure. Such opportunities would decrease if effective economic development were to become a goal equal to the safeguarding of defense in the socialist community, further, if Western Europe succeeds in improving its position of power within the western alliance system and finally, if a new American government were no longer to accept the burdens of the transatlantic crisis.

Strains Caused by World Economic Effects

Cyclical movement is characteristic of the capitalist economy, although these cycles are not nearly as regular as the theoreticians of the 19th century believed. However, the earlier viewpoint of Marxist economists according to which the economies of the socialist countries may free themselves from the cycle of the world economy should also be reevaluated. But it is rather difficult to show the relationship between the fluctuations of the world economy and the fluctuations of East-West trade, because of the following reasons, among others:

--When East-West trade was in its phase of rapid growth, it was begun from a rather low, artifically supppressed level; thus, for this reason alone, the rate of growth in relation to the baseline data was already high. Further, the dismantling of a significant part of the discriminative and protectionist obstacles obviously offset the conjunctural decline appearing in certain product sectors. (The export opportunities of a socialist enterprise could have increased despite declining demand; the importers did not have to endure lengthy licensing procedures when the authorities of the partner country discontinued restrictions on import quantities.)

--One and one-half decades is much too short a time to be able to determine the correlation of cyclic fluctuations, i.e., their regularity.

--The European CEMA countries' share of the foreign trade of the Western (OECD) countries was a mere 3-4 percent in 1980. This small share could lead to the conclusion that under worse conjunctural conditions, the marginal exporters are the first to be eliminated or that precisely because of the small quantity of exports, the fluctuation of demand has no significant effect. In truth, the problem requires a subtler analysis.

The composition of goods in circulation could not be left out of consideration when determining the effects of the world economy. It is obvious that its influence depends on the sensitivity of the business cycle to the products that are sold or bought. Thus, for example, energy sources represent two-thirds of Soviet exports today, and it is not possible to consider these as being sensitive to the business cycle either today or in the long run. At the same time, the influence of the development of Western demand is, for example, well demonstrated by the falling off of Hungary's Western agricultural exports. It must be remembered that our beef exports to the markets of the EC dropped by $120 million in 1974 as compared to the previous year. The direct cause of this was the EC's agrarian protectionism; however, this protectionism is either stricter or more lenient depending on domestic demand, although it itself influences the domestic relation of supply and demand.

According to certain views, it is hardly possible to find a connection between the foreign trade of the developed capitalist countries and the fluctuation of East-West trade. The rates of growth seem to reflect the fact that the yearly growth of the exports originating from European CEMA countries outside the Soviet Union and the total quantity of the imports of the OECD are not dependent on each other. The following table seems to verify this:

Quantitative Increases in Percents

Year	Total Imports of the OECD	OECD Imports from European CEMA Countries Outside the Soviet Union
1976	11	14
1977	5	6
1978	5	2
1979	7	3
1980	1	-1

Source: ECE Economic Bulletin for Europe, 1981.

However, other effects dominate the CEMA imports: The relationship between investment activity and the foreign balance of trade in several smaller CEMA countries may be demonstrated. Until the middle of the 1970's, this was manifested by the fact that increased investments were followed by increased consumption which resulted in increased imports and domestic production, and in general, the moderation of the rate of growth of exports. [In this process, the surplus in foreign balance of trade is reduced or its deficit grows, i.e., it goes from active to passive.] If this is tolerated, the process lasts longer the following year, but after a time, investment growth must be restricted. However, this decreases the rate of growth of consumption, and thus that of imports. Since investments are generally halted to reestablish the balance of foreign trade, exports are stimulated simultaneously with the moderation of the demand for imports by various economic policy measures. In this way the balance of foreign trade tends toward the active direction. This economic policy continues for a time; then investments are again increased and the cycle starts from the beginning. This fluctuation was representative of the period of inexpensive raw material materials alternating in roughly 2-year periods (for example, in Hungary). The explosive price increases of 1973 drastically reduced the Western trade exchange ratio of most of the CEMA countries, and since they were unable to quickly make structural modifications in their exports, a considerable amount of debt was amassed which likewise influenced their import possibilities.

It is disputable whether or not the burdens stemming from the well known rigid and unfavorable composition of goods of the Western exports of the CEMA countries could be listed among the effects of the world economy. This could be construed as the problem of the socialist national economies in which the world economy is "innocent." However, we must not forget that the possibilities for the export of nonmodern commodities are also better in a favorable, prosperous situation, and for this reason--in our opinion--it would not be justified to rigidly separate the two questions. Today, the structural changes taking place in the world economy are such that to date we have not

been able to suitably keep pace with our exports (or our production). But this structural change is also an influence of the world economy on East-West economic relations.

Strain of the Total Debt

The growth of the total Western debt of the CEMA countries may be traced to various causes. For example, in Poland, economic policy did not correctly ascertain the results which could be expected from the large Western imports and, for other known reasons, its indebtedness became particularly intensified. In Hungary, the deterioration of the foreign-trade exchange ratio and the swindling of Western export opportunities started this process. Perhaps the generalization could be made that the already slowly industrializing CEMA countries exacerbated this heritage of their developmental history by not, or only very slowly, creating the conditions for effective production which is capable of continuous accommodation to the world economy. Thus, under these circumstances they wished to lessen the breakdown of the equilibrium in part by also halting imports--to varying degrees in each country and with differing time lags. We emphasize that here, too, politics are instrumental. In the West, the debt of other socialist countries is judged differently, as, for example, that of England or Brazil, although their debt is more than the combined debt of the socialist community.

Thus, it would be a mistake to disregard the strain of present debts on East-West trade. A return to autarchy does not seem to be a possbble solution because economic cooperation with the West has become an organic part of the reproduction process in most CEMA countries, not to mention that under these circumstances a significant decline of imports would also lessen the stock of exportable goods which would in no way bring us closer to the condition of equilibrium.

We must also face the fact that the interests of the Western countries—especially of our chief partners, the Europeans--in economic relations with the East is essentially limited to two spheres: energy imports and the cooperation this entails, and, on the other hand, the expansion of their own exports. Interest in other spheres is sporadic, and this situation will continue to exist until the composition of the exports of the socialist countries does not change.

In the beginning of the 1970's, it was our belief that our stable markets would appreciate amidst a Western recession; however, now the export opportunities and the debt of the socialist countries limit their Western purchases. Thus, the significance of the stable market was only realized in connection with certain Western industrial sectors, monopolies or their governments (intending to decrease unemployment); in the meantime a considerable lack of confidence could be felt. A French expert characterized this contradictory situation by saying, "The markets of the East were the spare tire of Western Europe which has been in crisis since 1975."[1]

---

1 M. Royo: "Commerce est-Quest. La peau de chagrin." LE NOUVELLE ECONOMISTS, 28 April 1982, p 56-60.

Economic rationality dictates that Western creditors grant socialist countries time to reestablish the equilibrium of their foreign trade. From this standpoint, the assessment of the Bank of International Settlements (BIS) is interesting. It starts from the premise that the lessening of credit and the forcing of a large number of credit-using countries to quickly repay their debts together exert a regressive effect on the world economy. According to it, the most appropriate way to steer attempts at reorganizing credit in the right direction and to reestablish the security of the market would be not only for the IMF but also other official institutions to practice selective credit policy. (From the analysis, it is evident that the thought is of economic, not political selectivity.) The BIS also fears that the Western banks will become excessively cautious and selective, and will suddenly deny the renewal of credits and the circulation of short-term deposits, and will decrease their granting of credit. At the press conference held in June this year, the president of BIS used precisely our country as an example, saying that the BIS also wished to publicly demonstrate the trust placed in the economic results of our country by extending a short-term $510 million short-term loan to Hungary in the spring of 1982.[2]

In examining the future of East-West relations reflected through the changing situations of the world economy, we emphasize the following:

—The prognoses are quite varied: certain experts expected emergence from the recession as early as this year, others not even in the near future. In our opinion, we must always be wary of long-range projections of a given situation. The structural modifications of the world economy accompanying the present recession could be the harbingers of a new prosperity during which demand would be brisk, growth quickened and interest rates decreased--in other words, the conditions for the international division of labor would improve. Obviously, the changes in the world economy influence the subsystem of the latter and therefore, also East-West relations.

Certain Western national economic interests (especially in the energy sector) exist alongside economic cooperation with the socialist countries; additionally, there are group interests which Western governments must take into consideration, whether speaking of the interest in the Eastern trade of the large companies and factories, or the income of the American farmers; finally, there are the interests of the creditors which, in the least, also support the maintenance of relations. Among the countering factors we must paradoxically mention the debt which sets a limit to Western purchases of the CEMA countries; the opposition of Western companies and unions to the importance of products which are sold with difficulty even domestically; resistance to numerous East-West cooperative ventures because of growing unemployment, even if the wage standards of the socialist countries are lower; and the fact that the socialist national economies are hardly able to replace the above-mentioned eliminated imports with modern products which are in demand.

---

2 Carl Gewirtz: "BIS Warns Bankers on Decreasing Loans 2." INTERNATIONAL HERALD TRIBUNE 1- June 1982.

Opinion is divided in the issue of tecnnical and technological transfers from West to East. Some experts of the socialist countries start from the premise that the national economy must be modernized and made more effective by relying on CEMA's own scientific-technological base, since the Western monopolies could not be expected to contribute to the advancement of their socialist competitors. Others believe that points of overlap could be found in numerous branches of industry, including those that are the most advanced. In the West, opinions are especially divided on this issue. The opponents of detente and East-West, cooperation maintain that technological transfers strengthen the military potential of the socialist countries; however, the proponents of cooperation for political as well as economic reasons argue for the exportation of modern products to the socialist countries, although they, too, profess that the West must maintain its existing superiority in this field. (The only exception to this superiority is military technology where the Soviet Union is acknowledged to be on a world-class level.)

It may be deduced that the acceleration of technological advancement is essential for the socialist community; if scientific-technological opportunities with the West become limited, it must increasingly rely on its own potential; if they expand, however, they will increase the willingness of Western partners to cooperate.

The Strain Associated With Western European Integrative Processes

The economic relations between the two halves of our continent are undeniably made more difficult despite many years of negotiations, since to date we have not reached an agreement between CEMA and the EC, and furthermore, the CEMA countries are excluded from the industrial free trade zone created by the Western countries. It is well known that up to the present time not one of our Western partners has been willing to create an industrial free trade zone with any of the CEMA countries except Finland. As a result, socialist exports are burdened with tariff disadvantages, and hidden restrictions outside of tariffs are more easily applied to them.

Exclusion from the free trade zone and the disorganized relations between the two integrations are not independent of each other. As it is well known, the EC would conclude separate trade agreements with each of the CEMA countries and is unwilling to settle unresolved trade policy issues with a contract between the integrations. The Western European countries outside the EC but tied to it by free trade agreements fear that following the Finnish example would precipitate the disapproval of the community. The passivity of the governments of the member states of the EC in this area is probably caused not only be the present, tenser international atmosphere and the more unfavorable world economic situation, but also by the ambiguous attitudes to this issue. An agreement between theiintegrations would be desirable primarily for political reasons for the Soviet Union which possesses a less open national economy also by virtue of its size; the Westerners do not want to satisfy this demand, maintaining that an agreement concluded with CEMA as a whole would strengthen the cohesion of socialist integration.

However, a suitable resolution of this issue would also be important from an economic viewpoint for the small CEMA countries with open national economics

Diverging from the other members of the socialist community, Rumania signed an agreement with the EC in which the integration made far fewer concessions—also according to Western experts—than Rumania; from this it may be concluded that the EC relates to the members of the Warsaw Pact in a totally different manner than to uncommitted Yugoslavia. It may be possible that a generalization may not be made from the experience of one country; but contrary to this, the fact exists that the EC—while it encouraged a bilateral agreement with the smaller CEMA countries—never made an economically attractive offer to them; it did not even go so far in its plan as its GATT membership would have warranted. Bluntly speaking, they did not even want to tempt these countries very much to diverge from the uniform viewpoint held in the socialist community.

The successful Hungarian-Finnish industrial free trade agreement proves that it is possible to conclude such agreements between countries with differing social systems where each party respects the identity of the other. (It is also conceivable—as numerous precedents have already shown—that certain categories of commodities could be withdrawn from free trade.) However, for all this, political will is necessary and according to general opinion this presupposes favorable international relations. In our opinion the converse of this interdependence is also valid; by drawing relations closer, the political atmosphere would be favorably influenced.

The Effect of the Transition to the Intensive Phase of Development

In general, both technical literature and practice refer to the adjective "intensive" in relation to economic development, meaning that with the exhaustion of extensive opportunities (primarily that of still utilizable manpower), methods must be changed to make economic development more effective. However, this is not an entirely acceptable interpretation.

--Effective production can be achieved even under circumstances where manpower is still available. This is how it was in Japan, and because of the increase in unemployment, (even if this is mostly structural in nature), this is also how it is in numerous developed capitalist countries. In other words, a national economy in its extensive phase may also produce very effectively, not to mention those countries where certain sectors or regions of the national economy are characterized by extensive and intensive parallel elements.

--Under socialist circumstances (but perhaps also in general), the intensive phase of development may not be limited to the economy. As is well known, economic, political, cultural and other social factors are intertwined in the processes of reproduction. Since the goal is the development of a creative society which itself inspires further creative capability, advances socialist triumphs, ameliorates remaining social injustices but is not bound to dogma, the necessity for social changes is necessary not only for economic but also for broader political reasons. Thus, by the period of intensive development, we do not exclusively mean the level that may be attained by economic transition, economic management and the closely associated reform of the institutional system, but rather a social process. It is still valid that

the modernization of economic management and the institutional system is considered to be the most important task of the smaller CEMA countries with open economies; otherwise, it is hardly possible for them to increase their competitiveness on the world market. This is especially applicable to those national economies (Hungary, GDR, Poland and Rumania) where the Western share in foreign trade is rather significant.

—Obviously, the transition to the intensive phase requires a longer period of time and, above all, reserves which cover, at least in the beginning, the increasing need of the economy for capital. In general, neither the transition nor the radical transformation of domestic conditions are made without difficulties. (An interesting exception is Hungarian agriculture, whose production increased even in the decisive final phase of collectivization.)

It is disadvantageous for the smaller, structurally open CEMA national economies that their transition to the intensive phase of development--which was closely connected to their goal of increasing the effectiveness of production and export—coincided with the deterioration of external conditions. It is undeniable that several socialist countries reacted slowly to the above, and thus they are now faced with difficult tasks, also from the viewpoint of Western economic relations:

a) The foreign economic imbalance must be moderated while striving to protect socialist triumphs. These two tasks are contradictory to a certain extent. It is easy to see that decreasing domestic expenditure of the national income would favor the speedy moderation of the foreign economic imbalance which, however, would inevitably affect the standard of living. Socialist society must also proceed more cautiously in numerous other respects than the Westerners; the safeguarding of full employment as a socialist triumph also slows down structural change.

b) The solutions to the problems may only be conceivable with the introduction of a generally acceptable system of values, whose financial and moral elements serve the goals of long-term strategy. However, this again raises a multitude of problems: the relationship of national economic, group and individual interests, democratic means to deal with colliding interests, the goal-oriented establishment of decisionmaking spheres, the relationship of the function of state ownership to the economy, etc.

c) However, the reestablishment of the foreign economic balance--meant in a dynamic sense--cannot wait until this process is completed. (The dynamic interpretation of the balance assumes that deficits and surpluses of the balance will be related to the various national economic indicators; in other words, it will be evaluated for its dynamism. Thus, in the meantime, "fire-extinguishing" is also necessary, which does not necessarily speed the attainment of long-range goals--for example, that products which are "declining" from the world economic standpoint be produced and exported so as to increase foreign-exchange revenue for a given year. One of the most difficult tasks of this transitional age is to properly determine the ratio of measures serving long-range goals to temporary compulsory moves.

d) The effectiveness of socialist economic development assumes the appropriate modernizations of the methods and institutions of cooperation within CEMA in the present situation, it is particularly important for the smaller member countries to maintain the security of their raw-material supply and of their exports to the large markets of the integration. From the viewpoint of Western economic relations, it should be taken into consideration that these have different weights and significances in the individual CEMA national economies. Thus, within the economic policy agreement, individual solutions are necessary for each country. (Here we note that since the member states each have different attributes, obviously further differences will be evidenced in their economic management and institutional systems. However, it is a mistake to see this as an absolute deterrent to cooperation. For example, if members within CEMA have certain mutual shipping agreements, the point is that they be fulfilled, not by what means—through directives or automatically—the producers and foreign-trade enterprises are induced to export them.)

In summary: From the viewpoint of the socialist countries and their community, the fact that they must intensify the effectiveness of their economic development almost by leaps and bounds is a strain--despite the fact that this requires more time and the external conditions are not favorable. The development of East-West economic relations is not least dependent on how long it takes our countries to reach this goal.

Questions of the Ability to Bear Stress in the Fourth Phase

In the foregoing, we strove to present the factors, or changes in their development, that either favorably or unfavorably influence East-West economic relations. We now hazard a few conclusions:

--In the long run, a certain asymmetry of interests will continue to exist--purely from an economic standpoint—since this sector of the international division of labor takes place between two blocs of countries that are different from each other from the viewpoints of both economic potential and economic development. This primarily affects the smaller, open CEMA economies.

--The mentioned asymmetry may either be moderated or intensified by East-West political relations. For this reason, socialist foreign policy must become more "econocentric" especially in relation to Western Europe.

—In relation to East-West economic relations, long-range strategy must take into consideration that the rise of conflicts is a natural phenomenon. We must increasingly evaluate their possible extent, anticipated results and those means by which their effects could be weakened and their duration shortened.

—The inevitable or purposefully caused problems emanating from without tempt us to foist the responsibility of the difficulties of socialist development primarily on these. Thus the internal and external causes of social

and economic problems must be unraveled by very careful analysis. The Hungarian estimations of East-West economic relations were not free of extremism either. In the 1950's, we exclusively blamed Western embargo policy and discrimination for our difficulties. Later this evaluation frequently changed to the opposite, and while we exposed the weaknesses of our production and export mechanisms and our ineffectiveness, the conception in many arose that the world market is a neutral agency where commodities in demand could always be sold under favorable circumstances. It seems that nowadays we are by and large able to realistically examine the effects of internal and external conditions, but the evolution of reciprocal effects--especially economic and political--is not satisfactory.

--The goal of the policy of peaceful coexistence is not to emphasize differences, but to seek compromises--without giving up principles--which facilitate mutually advantageous cooperation between the two antagonistic systems. Actions of great significance must always be accompanied by a policy of small steps; we must always seek newer methods to stimulate our economic relations with the West, that is, to increase the interest of the partner countries. No matter what changes we expect, we must be aware that the effective development of our national economy is a question of survival and that until we create the required conditions of creativity throughout society, we must make sacrifices. Thus, the time factor is extremely important.

It would not be possible to assemble a forecast which is to any extent responsible and unambiguous about East-West relations until the end of our decade or century. However, we must take every possible economic and political measure to increase our capacity to bear strain.

9956
CSO: 2500/105

DUTY-FREE SITES FOR MIXED COMPANIES PLANNED

Budapest OTLET in Hungarian 3 Mar 83 p 5

[Interview with Gabor Miklos, chief of the Department of Foreign Interests, Hungarian Bank of Foreign Trade, by János Serényi: "Trespassing Allowed"; place and date not given]

[Text] "The lot must be enclosed with a 9-foot fence and then it may be considered foreign territory."

From a business viewpoint, duty-free sites are considered world-wide as akin to paradise. Through a new decree, such sites can be also set up in Hungary.

In the days to come, the foreign partners of the Hungarian Bank of Foreign Trade will receive the bank's foreign-language publications that give information about the decree regarding the establishment of economic associations operating with foreign participation in so-called "duty-free sites."

[Question] We inquired from Gabor Miklòs, chief of the Department of Foreign Interests, Hungarian Bank of Foreign Trade, about the objective of the decree.

[Answer] It has been more than a decade that capitalist companies were allowed to establish enterprises in Hungary with Hungarian partners, says the chief of the department. But the only slightly more than 10 mixed enterprises were established to date, and only some of these are engaged in productive activity. The solid results achieved in this area encourage us to take further steps in this direction; indeed, I would rather say that they made further steps necessary. We must make sure that foreign entrepreneurs find it advantageous to establish Hungarian associations and, whenever possible, release them from domestic limitations that often seem strange to them. The establishment of duty-free sites increases the autonomy of the mixed enterprises significantly, which hopefully will increase the number of successful international "marriages."

[Question] How was the duty-free site established and what are its characteristics?

[Answer] In principle, such a site may be established anywhere at the request of the mixed enterprise if the given area can be physically demarcated and if it is approved by the National Command of the Customs and Internal Revenue Police, the Ministry of Foreign Trade, the Ministry of the Interior, and the Ministry of Transportation and Postal Affairs. The given lot must then be fenced off with a 9-foot fence and then it may be considered, as far as the Hungarian statutes of customs and foreign exchange are concerned, a foreign territory. (The ground thus remains Hungarian property, and the user generally pays rent.)

According to this territorial demarcation, most domestic regulations do not apply to the associations active there. They determine their own income and wage and price policies, they cannot be forced to establish the various funds (with the exception of reserve funds against risks), they may freely decide on the acquisition and use of cars, etc. In setting the wages of Hungarian contractors, they must abide by domestic categories but may exceed the upper limit through supplementary wages. This wage supplement is free from social security and pension deductions but is taxed as income. Accordingly, pensions are set on the basis of the basic wage. Wages and wage supplements may be paid only in forints.

Those entering or leaving the duty-free site are in the same category as those entering or leaving Hungary. It must be mentioned as an exception that the regulations governing the number of forints that can be taken out or brought into Hungary without permission and those involving passenger customs tariffs are not valid here.

I think it is important to mention that when a Hungarian enterprise sells a product to a mixed enterprise on a duty-free site, the sale is considered an export transaction; a purchase, which it is expected will be less frequently, will be considered imports.

[Question] Disregarding flexibility, what is the incentive for the partners to establish an association in a duty-free site?

[Answer] The foreign entrepreneur can employ in Hungary contractors who are extremely well trained—and for lower wages than those of his own country. Depending on his specialty, he can purchase in the host country raw materials and semifinished products at good prices and does not have to pay as much for transportation and customs. In addition, he may also bring in, duty-free, machines and equipment from other countries to his own duty-free site.

It is not unimportant that the taxes and mixed enterprises must pay, which is 40 percent of the profit left after payment into the risk-reserve and profit-sharing funds, are less than those in most capitalist countries.

Of course, the host country can also receive a nice "dower:" it may export materials, products and services that cannot be sold on the foreign market at all or cannot be sold at a good price. And, at least as important, high technology, modern management and other professional know-how which together may help our country's technical and economic development may be learned from foreign companies active here.

[Question] To what degree may the foreign enterprises participate in the establishment of the capital fund?

[Answer] Participation by the foreign member or members generally may not exceed 49 percent. However, under certain circumstances, this ratio may be increased with the permission of the Ministry of Finance.

[Question] As a result of the lagging of the world economy, enterprise in many countries has dwindled, and a more careful, overprotected trade policy is being emphasized. What can be expected in the near future of this promising way of enterprise establishment that is so new in Hungary?

[Answer] One thing is certain, we cannot expect miracles. It seems promising, however, that a certain amount of foreign interest is already apparent.

[Question] What does and what can the Hungarian Bank of Foreign Trade do to make actual partners out of interested parties?

[Answer] First we are trying to distribute translations of the new decree through the channels of the Ministry of Foreign Trade and the Hungarian Chamber of Commerce. As a followup, we are giving concrete information and professional advice to the domestic and foreign enterprises coming to us. When necessary, we find a Hungarian partner for the foreign entrepreneurs; when requested, we participate in the preparatory conferences and help in formulating the contract. We are also planning to cooperate through financing, and we would even be glad to become associates in a business deal...!

9414
CSO: 2500/169

PROSPECT OF CURRENCY REVALUATION TO CURB INFLATION REPORTED

Paris LE FIGARO in French 20 Jan 83 p 4

/Article by Bernard Margueritte: "Warsaw Getting Ready for a Currency Exchange/

/Text/ Are the Polish authorities getting ready for a currency exchange? What Finance Minister Nieckarz has just said on this subject has not dispelled the rumors. The Minister in fact, using a curious formula, has confined his comments to guaranteeing that there will "not be any currency change without equivalence." Thus a currency exchange with equivalence is not ruled out, or in other words whoever brings a 1,000 zloty note to the bank will receive a new 1,000 zloty note. (It is true that some people are also referring to the possibility of creating a "heavy zloty" equivalent to 10 current zloyts.)

What is the purpose of the operation? To eliminate a certain number of zlotys that are adding to inflationary pressures. Particularly if the operation is accompanied by a revision of the tax system, the expectation is that persons very well-off would prefer to lose money rather than reveal their wealth by going to change their notes. We hope, however, that the authorities will in the end have enough good sense to reject this operation, which would be extremely costly, would have disastrous psychological effects, and would not achieve its goal. The wealthy, the speculators, and traders took their precautions a long time ago and invested their money or exchanged their zlotys on the black market against dollars.

One of them, representing what is called here "private initiative" told me quite plainly: "I never keep more than 1 million zlotys at home. If they decide on the currency exchange, I will give 100,000 zlotys to each of my aunts and cousins and they will go exchange it for me."

It is easy to understand, however, the anxiety of the Polish authorities. Only 15 days after the 1983 plan was adopted by the Diet on 29 December, it collapsed. This is obviously a sorry record.

The Vicious Circle

Let's see what is happening. Personal income was supposed to increase during the first quarter of 1983 by 10 percent. We already know that it will increase by 28 percent. In the same way, the money supply without commercial cover will

increase by 130 billion zlotys during the first quarter alone, whereas it was not supposed to grow by more than 71 billion for the entire year!

RZECZPOSPOLITA, a government periodical, is now predicting that the increase for 1983 will be 220 billion zlotys.

The first result is that rationing will be continued this year. This covers, according to the paper, "about 50 percent of foodstuffs and about 30 percent of industrial products." However, as RZECZPOSPOLITA acknowledges, continued rationing "is not consistent with the measures envisaged under the economic reform." Without this reform, however, there will be no economic recovery and so here we are back in one of our vicious circles.

A second result is that it will be necessary to make sharp price hikes. The plan adopted at the end of December estimated that they would be from 15 to 16 percent for the entire year. Minister Nieckarz has just said that "the price increase in 1983 will not be higher than the increase in income." This means that during the first quarter alone, the rise could be as much as 28 percent. The minister added that this would not affect the staple food products. However, it will very quickly affect public transport (a 300 percent increase as of 1 February), alcoholic beverages, cigarettes, rent and probably the telephone, automobiles, gasoline, etc. Now, prices already increased by 105 percent in 1982, according to official statistics!

It is true that, at the same time, income was growing by 62 percent on average. Some figures will show the extent of the problem. Personal income went from 182.6 billion zlotys in January 1982 to 361.8 billion in December (a rather exceptional month, granted). At the same time, industrial production went down by 2 percent during the year, so people were producing less but earning much more, and the inflationary chaos is inevitable.

The situation was made all the worse when, under the umbrella of a state of war, in February the government effected a painful operation that had been tried by all the other teams of leaders since 1970 without any effect other than bringing on their downfall, i.e., a 200 to 300 percent hike in the prices of foodstuffs. This decision was of course necessary from a strictly economic viewpoint, to improve market equilibrium and to put the financial situation in order, but in the end it did no good. Government grants for food products were at that time 360 billion zlotys, and today they are 150 billion for these articles and 450 billion overall. The inflationary "G.A.P." in particular, i.e., the money supply without commercial cover, was 500 billion zlotys at the end of 1981, and today it is 500 billion again. Thus the operation, as painful as it was, completely failed.

We have to give the authorities credit for now seeming--albeit somewhat late again--to realize their mistake and appearing determined to finally exercise great economic discipline. But at what price? In a situation in which, as POLITYCA admitted, "working groups find themselves increasingly impoverished," might not the increases announced cause further riots which this time would not be at all political and would not be controlled by one person?

9805
CSO: 3519/356

STATUS, OUTLOOK FOR SMALL BUSINESS REVIEWED

Zagreb DANAS in Serbo-Croatian 15 Mar 83 pp 13-14

[Article by Djuro Zagorac: "The Senseless Fear of the Private Craftsmen"]

[Text] It has been learned from polling our workers employed abroad temporarily that about 50,000 of them intend to return to the homeland this year, either voluntarily or because they must. Most of them, if not all, want to continue working. Will there be job vacancies for all of them when we know that nearly a million people are waiting for jobs here within the country?

Our economic trends are restrictive, investments are being cut back, and production in the first months of the year is ranging close to last year's level. Given those circumstances, if economic criteria are respected, one is more likely to be left without a job than to obtain one. Only those with production occupations, within certain limits, need not fear; they can even choose. But for the nonproduction occupations a time of the greatest trial so far is coming.

Since the returnees are mainly production workers, in industry or agriculture, they do have a certain advantage over a majority of those who have already taken their places on the lists of employment security communities. Our day laborers who have gone abroad also have other advantages: they possess savings, they can import machines and equipment for certain activities, and they can thus become part of the small business sector, which also offers the greatest opportunities for work, a sector in which there is every economic justification for higher employment. At the same time the returnees represent an opportunity for the unemployed within the country--that is, they can pull the latter into the small business sector.

Fairy Tales or Reality

Stories which are virtually fairy tales have been written and told about the small business sector. Planners, economists and politicians ... have become blue in the face arguing that this is an activity in which a job costs half as much as in the so-called large-scale economy, that without development of small business there can be no harmonious development of the large-scale economy, all the way to the assertion that we would not be affected as we are by the present shortages if we had carried out the programs and agreements

concerning development of the small business sector. And then there is the strongest argument: specialists of the Economics Institute in Ljubljana, for example, have concluded that it is possible to employ another 1.5 million workers in the small business sector. This assertion leads to the logical conclusion, only small business can handle all the unemployed in the country and all those who are employed abroad temporarily! And if the needs of the small business sector for workers were met, then many branches of the large scale economy would be compelled--to import manpower!

Who, then, is sabotaging and holding back development of small business and leading us into the situation in which we find ourselves with respect to employment, with respect to production of consumer goods, and with respect to the unnecessary importation of trifles which we can produce ourselves?

The small business sector harbors large secrets within itself. It has found itself, and still finds itself, between the hammer and the anvil. When it comes to the commitment of society, its development has been crystal clear. In practice, however, the obstacles have been numerous and, it seems, unconquerable. In the extremely rapid economic development which we have had since the war and up to these "feverish" years little thought was given to "small" undertakings; everything that was not the first in the country and the largest in the Balkans and environs had a hard time winning followers and also getting money. Small plants were not of interest to large work organizations and sociopolitical communities, and self-employment actually maintained itself and developed thanks to the efforts of individuals. If the small business sector is socially justified, how is it, then, that it can be left solely to individual initiative on the part of those who want to work in it? The small business sector has thus been reduced to narrow limits, and there it has been barely getting along, the public has been left without products and services which the large-scale economy cannot provide, while on the other hand there has been a ground swell of unlicensed work that goes without supervision, work which at the same time gives rise to many deviant phenomena.

The Fear of Capital

When the small business sector is mentioned in our context, people mostly think of the private sector. Moreover, the possibility of enormous earnings is immediately grafted onto the private craftsmen. Who is it, then, who favors the affirmation of that kind of work, can it be that we want to renew capitalist relations through it? The fear of this "renewal" is felt in all quarters, and certainly it has been and has remained the strongest impediment to development of the small business sector as a whole. What grounds are there for that fear?

Until 2 years ago the small business sector was even negligible for our statisticians; they did not follow it at all. Only when the Federal Executive Council "imposed" this obligation were the first figures gathered. Here are the numbers: There are in the country 2,516 OOUR's [basic organization of associated labor] in the small business sector, employing only about 198,000 workers. In 1981 the small business sector had a share of only 2.49 percent in all the income earned by the country's economy! The personal incomes of

those employed in the socialized segment of the small business sector were lower than in the large-scale economy, but more than 95 percent of all these OUR's [organization of associated labor] are in the crafts and trades, the building trades and industry.

The number of self-employed persons (that is, proprietors) in the small business sector is indicated by the following figures: independent craft and trade establishments--131,000, hostelry establishments--15,000, truckers, taxi operators and boatmen--42,000, which means that in all we have exactly 189,145 of them. All of them together employed only 92,036 workers, which means that every other establishment has 2 persons employed, or a total of only 281,181 in the private segment of this sector.

In both segments of the small business sector, then, there are less than 500,000 workers, or about 7 percent of the employed work force in the country. It is felt that in our small business sector, in view of the level of development attained, there ought to be about 30 percent of the total employed labor force, which means more than 2 million people; that is, we have "unfilled" space for employing 1.5 million workers.

It is evident from the figures that the private operators avoid hiring workers, that the average proprietor has less than half a worker. Why is that the case?

Taxes

There are certainly numerous reasons. Those who are informed say that people are not motivated to earn more income, that tax policy has not offered incentives. And present contributions do not encourage them to hire new workers; they often pay more for them than is set aside in associated labor. Recently opstinas have been granting tax exemptions to all those who employ one or more workers. Thus in Gornji Milanovac Opstina anyone who employs more than three workers is exempted from payment of the opstina tax. As for contributions, the communities of interest are not willing to grant reductions. To be sure, there are isolated examples, but they have to do with crafts and trades which are dying out and with people over age 60.

"We must by every possible means encourage the hiring of more workers by the proprietors of private establishments. Some of the regulations and measures have actually been opposed to this desire of ours, such as the one concerning the importation of raw materials and other industrial goods. Every private operator has the same import rights, but those who employ more workers ought to be allowed larger imports," says Dusko Knezevic, assistant chairman of the Federal Committee for Labor, Health and Social Welfare Policy.

The law allows a private proprietor to employ as many as five workers. Should this legal provision perhaps be amended so as to allow those who are doing well to employ even more people?

"The figure that there is only one hired worker for every two establishments shows that under present conditions there is no interest in hiring more and that the present legal provision is no impediment to that at all," Knezevic says.

The Flowering of Unlicensed Handymen

Those who have been more concerned with the small business sector have an easier time discovering the reasons why hiring is avoided in the private segment where the opportunities exist for doing more business and earning more income. One of the reasons is that unlicensed work has taken on such proportions as to offer serious competition to the legal private sector.

"In our opstina the operations of unlicensed handymen have expanded greatly, and this is even disrupting relations in production among employed persons, since they do not all have equal opportunities for exceptional earnings. We have proposed a model for preventing unlicensed operations. Anyone who intends to engage in the rendering of services will be exempted from taxes on his principal activity, so that anyone who is now an unlicensed handyman can easily open an establishment for small jobs, which means that he need not have a separate place of business, but can make 'house calls,'" says Viktor Perusko of Pula.

The contract organization, whose status was elaborated in detail in the Law on Associated Labor, was at one time judged to be the most perfect model for our returnees from abroad as well. It guarantees profit on capital invested, ensures the investor the place of manager, and also offers the opportunity of hiring a sizable number of workers. The contract organization is offered the unrestricted opportunity of establishing ties with the socialized sector, of becoming involved in large production runs and more complicated production operations. Only 130 contract organizations have been established in the country since the Law on Associated Labor was adopted. The number is incomprehensibly small. Why?

It is easy to conclude that location, business space, is a paramount problem of the small business sector. Here the opstina is a "little god." Indeed perhaps this is the entire secret? Under the law contract organizations do not pay an income tax to the opstinas, but to the republics and provinces. Who is so crazy, then, looking from the standpoint of the opstina budget, to issue a license and permit for business space to an economic entity from whom there is no financial benefit?

The Vision

In order to encourage faster establishment of contract organizations the Federal Executive Council has recommended to the executive councils of the republics and provinces that they relinquish their tax and leave it to the opstinas. Slovenia is the only one not to have adopted that tax, and this has been one reason why contract organizations have been established more quickly and simply on its soil.

Members of the Commission for Economic Stabilization devoted attention to the small business sector in our future development. Material on the small business sector was presented in a separate publication which referred to the legal security of private ownership and labor and which pointed to how beneficial and justified the faster development of the small business sector is.

"Small business, in its broadest sense, is not a remnant of the past at all, but an organic part of the economy. We are dealing, then, with a structural problem whose neglect is causing contradictions in which the economy is indicating constant shortages of certain goods or services which only small business can meet on an optimum basis," Kiro Gligorov emphasizes.

In any case the forecasters of technological and economic development do not foresee a further concentration of production in large production units. They see that development in the birth of a huge number of small units in which microelectronics will prevail. Gligorov has this to say about the present development of small business and that visionary development:

"There are almost unlimited opportunities for initiating small new plants, which have proven themselves as a very efficient form of organizing production on the basis of new technology, all the way to the first successful attempts, given the present capabilities of data processing, to have the worker work in his own home and to be connected by his own instruments to the large and complicated production mechanism."

The material on small business adopted by the commission has been followed by a very tangible activity. The Law on Banks and Credit Relations has been amended; it is now possible for private entrepreneurs to freely and equally pool their capital with the capital of work organizations and sociopolitical communities. And that will undoubtedly be a considerable incentive to the small business sector.

7045
CSO: 2800/212

DATA ON STATUS OF INVESTMENTS IN REPUBLICS, PROVINCES

Zagreb DANAS in Serbo-Croatian 15 Mar 83 pp 19-22

[Article by Selimir Janicijevic: "Who First, or Who Worst"]

[Text] If we were to assess in just one sentence the status of investment policy in our country up to now, then it would run like this: everyone on his own turf, within the limits of his own OOUR [basic organization of associated labor], work organization or complex organization, opstina, province or republic, makes observations, plans, builds, runs around, hurries, grabs as much as he can, without calculating whether the dinar invested will pay off and how much. Credits are used up to the limit obtainable, both foreign and domestic, and it hardly ever happens even by accident that a dinar of investment capital will pass from one republic or province into another: everyone thinks that he is sufficient unto himself and that he can himself "round out his own economy" and thus capture even the world market!

However, it seems that the first signs of a sobering up are on the horizon. To be sure, those familiar with conditions say that this has arrived at the level of the Federation, the republic or province, but that in opstinas and work organizations they still do not understand the full severity of the situation in which we find ourselves. Nevertheless, in Serbia they are inviting everyone who wants to invest in development of mineral resources and the fuel and power industry, Vojvodina and Serbia proper are already involved in a joint investment in mines and thermal electric power plants, people from Croatia are investing in Vojvodina's food processing industry and also in building factories and thermal electric power plants in Kosovo.

We will describe, then, the state of affairs of investment projects under way which the Social Accounting Service of Yugoslavia surveyed at the end of September 1982. To see how much we can do when we want to. The first thing for every capital investment undertaking is to find the money, or, in popular terms, to make up the financial package. In our situation this consists of the following: 1) cash--capital set aside in a special account, 2) pooled capital, 3) capital hoped for (i.e., money the investor feels that he will earn and for which the bank would have to issue its guarantee), 4) credit (domestic and foreign), 5) resources of funds for more rapid development of the underdeveloped, 6) resources from funds of sociopolitical communities, 7) budget resources, 8) funds provided under law, and 9) optional local contributions.

Unsettled Relations

Actually there is no Yugoslav financial package of investment projects, since the republics are themselves concerned about their own development. Thus they differ from one another with respect to that package.

Here is how the Yugoslav financial package of investment projects under way look "on the average":

Total estimated cost is 1,540.6 billion dinars. Cash makes up 146.4 billion, or 9.5 percent of this; pooled capital 147.3 billion, or 11.3 percent; capital hoped for (future income) 230.4 billion, or 15 percent; domestic credit 528.9 billion, or 34.3 percent; foreign credit 203.9 billion, or 13.2 percent; the share of foreign coinvestors 18.3 billion, or 1.2 percent; resources for more rapid development, funds, budget, capital provided by law, and the optional local contribution 181.5 billion, or 11.8 percent, and capital lacking amounts to 56.9 billion, or 3.7 percent.

In other words, out of every 100 dinars of the estimated cost of capital investment projects under way 22 dinars represent capital which can be regarded as cash, and the other 78 must mostly be repaid. However, this ratio varies greatly from one republic or province to another.

It is obvious that the largest amount of cash and pooled capital has been assembled in Slovenia, Vojvodina and Croatia, and the least in Montenegro, Serbia proper, Kosovo and Macedonia.

[Box, pp 20-21]

The Largest Investment Projects in Yugoslavia: What Is the Most Recent Picture of Investment by Republics and Provinces

In SR [Socialist Republic] Bosnia-Hercegovina there are at the moment 56 projects under construction with an estimated cost exceeding 500 million dinars. The largest value of an individual investment project is for the Uglevik Mine and the thermal electric power plant being established. Construction began in 1975, and an estimated cost of 3.3 billion dinars was established at that time. Today it is already assumed that the estimated cost is 9.8 billion dinars, but completion of construction is envisaged in 1984. The Gacko--Trebinje Mine and Thermal Electric Power Plant went under construction in 1977, and at that time the estimated cost was 2.6 billion. Today the estimated cost already amounts to 10.4 billion, and completion is planned in 1983.

In SR Montenegro there are 19 high-value projects under construction. A project cost of 1.3 billion dinars was envisaged for expansion of the Niksic Steel Mill, whose construction began in 1970, and today it is 6.8 billion dinars. Completion of construction is envisaged this year. The Titograd Aluminum Combine anticipated that the investment project of building its second phase would cost 1.9 billion. Now the value has jumped to 4.9 billion, and construction is to be completed this year.

In SR Croatia there are 65 high-value projects under construction. Naturally the highest cost of an investment project is in the field of petrochemistry--the DINA--the petrochemical complex at Omisalj. Construction began in 1977 at an initial estimated cost of 19.6 billion, but today that cost has jumped to 46.3 billion dinars. The petrochemical division of INA [Zagreb Petroleum Industry] is building a project in Kutina which went under construction in 1978 and which at the outset had a cost estimate of 16.4 billion, but is today 26.7 billion.

In SR Macedonia there are 19 high-value projects under construction. The most costly is construction of the "Feni" Nickel Mine and Industry in Kavadarcima. Begun in 1976 at an estimated cost of 3.2 billion dinars it was to be completed in 1982 at a cost of 14.6 billion dinars. The Bitola Mine went under construction in 1975, and completion is envisaged 10 years from that date. The initial estimated cost of 2.1 billion has climbed to 6.5 billion dinars.

In SR Slovenia there are 41 high-value projects under construction. The most costly is the Krsko Nuclear Power Plant under establishment, whose initial estimated cost in 1974 was 7.3 billion dinars, while at the end of last year, when it was supposed to be completed, its cost had reached the amount of 20.8 billion dinars. The Velenje Lignite Mine is investing in new underground mines. In 1980 when construction began the estimated cost was 900 million dinars, and 2 years later it was 6.4 billion. Completion of the work is anticipated in 1986.

In Serbia proper the most costly investment is the steel mill in Smederevo. Aside from this, another 83 high-value projects are under construction. The Smederevo Steel Mill includes 4 projects whose estimated cost was 15 billion when construction began, but today that estimated cost is 36.4 billion dinars. The most costly of these is the cold-rolling mill--Phase II, which went under construction in 1979 and whose original estimated cost was 7.9 billion dinars. Today that value has jumped to 21.8 billion dinars. The second most costly project is the Djerdap II Hydroelectric Power Plant, whose construction began in 1974. At that time the estimated cost was 4.8 billion dinars, but today that amount has reached 13.5 billion dinars. Completion of construction is anticipated in 1986.

In SAP [Socialist Autonomous Province] Vojvodina there are 23 high-value projects under construction. Only three of these have to do with agriculture. The costliest project is petroleum production--the Goriva II, which went under construction in 1967. At that time the estimated cost was 2.6 billion, but today, when completion of construction is being anticipated, it is 6.3 billion dinars. The other project also has to do with petroleum and is located in Pancevo. Its estimated cost in 1978 was 1.4 billion, and is today 6 billion. Completion is anticipated this year.

In SAP Kosovo there are 28 high-value projects under construction. At the mining and metallurgical combine the project Kosovo B began in 1977, and at that time the estimated cost was 6.7 billion dinars. Today it has reached 19 billion dinars and is to be completed this year. The second costliest project is "Peronikl'" of Glogovac, which went under construction in 1975, when its

estimated cost was 5.2 billion dinars. Today it has already reached the amount of 11.2 billion dinars, but completion of construction is anticipated this year.

[Box, p 21]

Rich Beginning and Modest End

The datum that in a period of 1 year (September 1981 to September 1982) 14,705 investment projects were completed is not to be underestimated. However, these were mostly low-value investment projects, modernization and reconstruction of existing facilities, which certainly will bring larger income.

The value of work completed was 839.6 billion dinars, or 54.5 percent of the total estimated cost of investment projects. By republics and provinces the value of work completed [relative to estimated cost] is as follows: 68.9 percent in Macedonia, 67 percent in Montenegro, 60 percent in Slovenia, 58.6 percent in Kosovo, 54.9 percent in Bosnia-Hercegovina, 51.1 percent in Vojvodina, 51 percent in Croatia, and 49.1 percent in Serbia proper.

However, work done in the amount of 22.6 billion dinars has not been paid for. The largest amount of nonpayment is in Bosnia-Hercegovina, where it is 8.8 billion dinars.

Over a 6-month period construction was halted on 194 projects whose estimated cost is 12 billion dinars. In the breakdown construction was halted on 22 projects in SR Croatia with a total estimated cost of 5.2 billion and on 123 projects in SR Serbia with an estimated cost of 5.1 billion dinars.

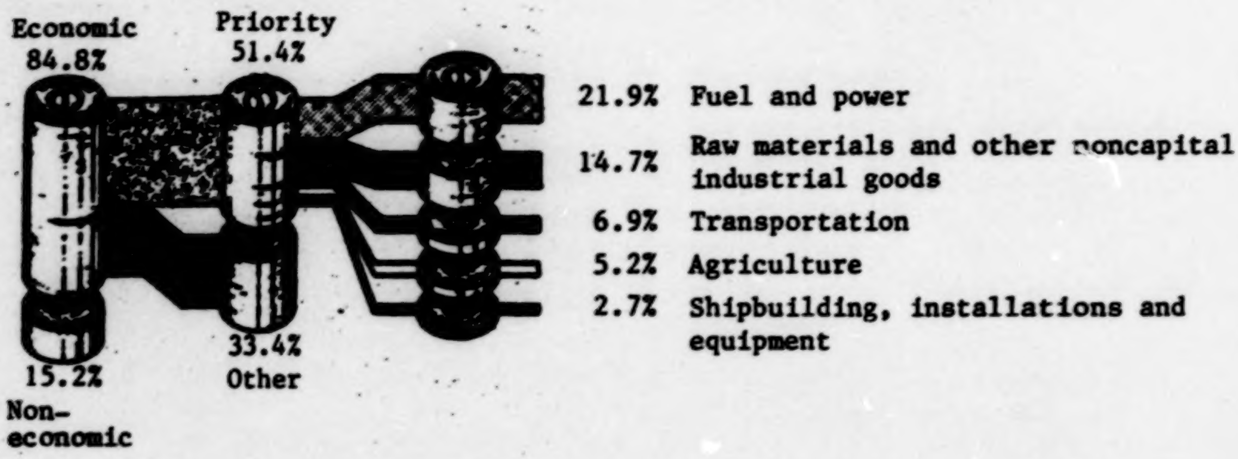
[Box, p 22]

The Main Emphasis

The figures on capital investment projects under way and their coverage provided by the Social Accounting Service of Yugoslavia (as of 3 September 1982) show that the 22,939 investment projects include 402 projects whose estimated cost is 880.1 billion dinars, or 57.1 percent of the total value of the projects. It is interesting that it is among these investment projects that we find the highest cost overruns and longest construction time. These are the projects on which the workers themselves make the fewest decisions. Better put, these are the so-called pets of the republics and provinces.

The work program of the Social Accounting Service for this year calls for monitoring investment projects. It would be good if the main emphasis were first directed toward monitoring those which we have mentioned. It would be good to establish responsibility at all levels for the many mistakes and subjective shortcomings, such as superficiality, lack of professional skill, wastefulness, incompetence, and indeed even private enrichment....

Where Is the Benefit From Investment Projects



[Return to text]

Out of every 100 dinars of investment capital the share representing cash is as follows by republics and provinces: 19.7 dinars in Vojvodina, 16.5 in Slovenia, 11.3 in Bosnia-Hercegovina, 6.9 in Croatia, 8.6 in Serbia proper, 7 in Macedonia, 5 in Montenegro and 1.9 in Kosovo.

Here is the breakdown of the share for pooled capital: Slovenia 24 dinars, Croatia 18, Vojvodina 15.5, Bosnia-Hercegovina 9.8, Macedonia 7.8, Kosovo 6.3, Serbia 5 and Montenegro 2.4 dinars. These figures obviously show that even within certain republics and provinces relations have not been set to rights when it comes to pooling capital. That is why we should emphasize the amazing datum that out of every 100 dinars of investment capital only 37 paras [1 para = .01 dinar] crosses republic and provincial borders. Pooling mainly takes place within the republics and provinces.

Of course, investment projects are the principal condition for any economic development. But desires and possibilities are not the same. First of all, it is worth presenting the truth as to where everyone stands. If we divide the cost of investment projects by the number of inhabitants, then the highest per capita amount of investments is in Montenegro--125,000 dinars (because of the earthquake), and then Slovenia with 83,000 dinars, and Serbia proper with 79,000, Vojvodina with 67,000, Croatia with 86,000, Kosovo with 65,000, Macedonia with 51,000 and Bosnia-Hercegovina with 50,500 dinars.

But that is only one side of the coin. If we divide this value by the number of persons employed in the economy, we get the opposite pattern. The largest amount per worker is in Kosovo, because it has the smallest labor force. Every worker in the Kosovo economy is burdened with 772,000 dinars of investments, in Montenegro the figure is 693,500, in Serbia proper 380,000, in Vojvodina 303,000, in Bosnia-Hercegovina 291,000, in Croatia 282,000, in Macedonia 268,000, and in Slovenia 244,000 dinars.

A Great Deal of Building Is Being Done

A third comparison shows everyone's ability to pay. Over 11 months of last year it is shown by a statistical bulletin of the Social Accounting Service (No 11, 1982) that investments paid for relative to estimated cost is highest in Slovenia at 46 percent, while in Croatia it is 45 percent, in Bosnia-Hercegovina 43 percent, Vojvodina 39, Montenegro 38, Macedonia 32, Serbia proper 30 and Kosovo 17 percent.

At the end of September there were 22,939 capital investment projects under construction with a total estimated cost of 1,540.6 billion dinars. In Bosnia-Hercegovina there were 1,699 investment projects, in Montenegro 886, in Croatia 4,243, in Macedonia 1,189, in Slovenia 2,606, in Serbia 12,317 (8,016 in Serbia proper, 787 in Kosovo and 3,514 in Vojvodina). The number of projects is down 6,000 if we compare it to the situation 2 years ago. In value terms, however, it is within the limits envisaged by the Resolution on Socioeconomic Development in 1982!

However, how is this capital being committed? Of every 100 dinars of investment capital 84.8 dinars go for economic investments and 51.4 dinars for investments covered by an agreement on priority for faster development. Here the largest amount was committed to the fuel and power industry and then to the production of raw materials and supplies, shipbuilding, major transportation routes, and least of all for agriculture, which we refer to as our great hope. Agricultural production has been appropriated only 5.2 dinars, and the food processing industry 2.3 dinars. It is obvious that something is wrong here and that there is a need for redistribution of investment capital. The appropriation for land resource improvement, irrigation, soil improvement, land consolidation and other undertakings to achieve the highest possible yield is almost symbolic. We are thus witnesses that the sugar mills have no sugar, that sunflower seed has to be imported for the oil mills, and so on.

Nevertheless, almost 1 dinar out of every 5 committed to investment in priority activities is already giving or will soon bring results. We are referring to the fuel and power industry. There are at the moment 10 hydroplants under construction or being completed: Grabovac, Salakovac, Obrovac, Orlovac, Cakovec, Mavcice, Solkan, the Perucac pump storage plant, Djerdap II, and Pirot.

There are 11 thermal power plants under construction: the Gacko Thermal Electric Power Plant and Mine, Pljevlja, Bitola, Kostolac, Drmno, the Nikola Tesla Thermal Electric Power Plant--Obrenovac II, IV, V, VI and generating unit I, as well as the Novi Sad Thermal Electric Power Plant.

Coal mines are being opened: Bitola, Velenje, Hrastnik, Kotredes, Aleksinac, Kolubara, Kostolac. Steel mills are being completed, new blast furnaces, metallurgical plants ... there is building, building, and more building.

A Check of the Figures

Certainly, everyone wants the best for his own region, but sometimes people have short memories. It is very important to use the experience of others so

that the dinar invested brings back 2, 3 or more dinars. The greatest trouble is that certain projects are under construction for a very long time. For example, 39 projects with an estimated cost of 26.2 billion dinars have been under construction for more than 10 years now. (Will responsibility for these investments finally be ascertained?) The disorderliness, poor organization and fragmentation of construction firms contribute greatly to higher construction costs. The fact that our country has 2,219 basic organizations engaged in construction confirms this.

There is a particular need to verify the accuracy of figures on estimated costs, on the actual amounts of overruns. To be sure, investors are required to submit a report to the Social Accounting Service on the size of overruns and to compare this to the original estimated cost. Unfortunately, overruns have been reported for 8,044 projects, and it is difficult to believe that with inflation what it is and with the extended completion deadlines the others have not also exceeded the estimated cost!

Or perhaps—it doesn't matter, the important thing is that building is being done. Who will be first? And who will be better--that is not known as yet.

7045
CSO: 2800/212 END

END OF
FICHE
DATE FILMED

April 21, 1983